02-1213

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners.

—v.—

PRICE WATERHOUSE LLP,
and COMPUTER LANGUAGE RESEARCH, INC.

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF AS *AMICUS CURIAE* OF THE COMMITTEE ON COPYRIGHT AND LITERARY PROPERTY OF THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK IN SUPPORT OF THE PETITION

Robert W. Clarida
Counsel of Record
COWAN, LIEBOWITZ
& LATMAN, P.C.
1133 Avenue of the Americas
New York, New York 10036
(212) 790-9200

Jessica R. Friedman
Attorney at Law
757 Third Avenue, Suite 1903
New York, New York 10017
(212) 973-9100

EDWARD J. DAVIS
Chair of the Committee on
Copyright and Literary Property
of The Association of the Bar of
the City of New York
42 West 44th Street
New York, New York 10036
(212) 603-6431

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STATEMENT OF INTEREST[1]

The Association of the Bar of the City of New York (the "Association"), formed in 1870, is a voluntary organization of attorneys with more than 22,000 members located in nearly every state and more than forty countries. The Committee on Copyright and Literary Property is one of the standing committees of the Association, made up of both practitioners and scholars, and is actively engaged in monitoring, commenting on and participating in developments in copyright law.

The Association does not have an interest in the outcome of this petition, except to the extent that the outcome affects copyright law and thereby affects Association members and the public generally, especially the creators and users of copyrighted works. Rather, without taking a position on the ultimate outcome of the parties' competing claims, the Association offers the views of a leading organization of copyright attorneys with a broad range of perspectives. Based on its independent analysis, the Association is concerned that the decision below violates basic principles of both copyright law and statutory interpretation. This brief is offered to provide a viewpoint that might not otherwise be presented to the Court.

CONSENT TO FILING OF *AMICUS CURIAE* BRIEF

The Association has obtained written consent to the filing of this brief from the counsel of record for both parties. These consents are being lodged herewith.

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[1] This brief was not authored, in whole or in part, by counsel to a party, and no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

SUMMARY OF ARGUMENT

This Court should grant *certiorari* to vacate and remand the decision of the Seventh Circuit. The decision below unnecessarily upsets the carefully balanced policy determinations Congress established in the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.*, (the "Act"), which vests copyright ownership initially in the author of a work and requires a signed writing for ownership to be transferred. The trial court awarded ownership of a commissioned derivative work to the commissioning party, based on a determination of "the intent of the parties," without regard to the writing requirements of copyright law. The Seventh Circuit's affirmance introduces gratuitous and costly uncertainty into the fundamental issue of copyright ownership by allowing ownership to become a jury question in circumstances which the Act unambiguously places outside the province of the jury as a matter of law.

The decision further creates a novel theory under which derivative works are deemed exempt from the ownership formalities that the Act imposes on all works of authorship. This special treatment for derivative works contradicts the statutory text, the legislative history and the decisions of other Circuits. It threatens many individual authors and small creative entities whom the Act was expressly intended to protect. Software developers would find themselves uniquely and unjustifiably disadvantaged when hired to expand, improve and develop pre-existing works, as would illustrators, translators, web designers, cartographers, editors, screenwriters, and other creators whose livelihoods depend largely or entirely on the creation of derivative works.

If not reversed, the decision below also could effectively nullify most of the Act's provisions regarding "works made for hire" by independent contractors, *see* 17 U.S.C. § 101, depriving such authors of their federally created

rights if they are unfortunate enough to have those rights adjudicated in the Seventh Circuit. Such disparity among the Circuits on the fundamental issue of ownership is inimical to the goal of national uniformity, which underlies the Act's express preemption of state law. 17 U.S.C. § 301.

The result reached by the Court of Appeals does not require such a radical disregard of federal law. *See infra* at III. Copyright law may permit a commissioning party to gain the use of a disputed derivative work under a variety of theories, should the facts allow. The decision below should therefore be vacated and remanded for further proceedings which recognize that copyright ownership for all works, including derivative works, vests *ab initio* in the author, 17 U.S.C. § 201(a), and cannot be transferred without a signed writing, 17 U.S.C. § 204(a).

FACTS

The facts material to this *amicus curiae* submission are not in dispute. Respondent Price Waterhouse owns the copyright in a software program called RevUp32. Sometime before March 1995, respondent decided to improve the software's operating speed and make certain other changes. In March of 1995, Xiaomei Yang, a former employee of respondent, identified a certain Chinese entity, the Sky Company, as a possible outside contractor to undertake the changes and improvements sought by respondent. A letter from respondent to Ms. Yang dated June 7, 1995, which was signed only by Price Waterhouse, not the Sky Company or Ms. Yang, provided that, *inter alia*, Ms. Yang would be paid certain sums contingent upon the degree of improvement made in the operating speed of the software. Respondent subsequently gave Ms. Yang the source code for RevUp32, which she in turn provided to the Sky Company. The Sky Company programmers created a derivative work, the China

RevUp32 program, that incorporated both the original RevUp32 program and material newly authored by the Sky Company programmers. The parties' relationship subsequently deteriorated; respondent distributed the China RevUp32 software despite disagreements with Yang and the Sky Company; Yang's daughter filed for copyright registration on behalf of the programmers; and this litigation ensued. After a ten-day jury trial, Price Waterhouse was adjudicated the owner *ab initio* of the copyright in the China RevUp32 program, notwithstanding express holdings by the trial court that China RevUp32 was not a work made for hire, and that the writing requirement of 17 U.S.C. § 204 had not been satisfied. That decision was affirmed by the Seventh Circuit.

ARGUMENT

I. THE DECISION BELOW IGNORES THE TEXT AND STRUCTURE OF THE COPYRIGHT ACT

A. The Classification and Writing Requirements for Work Made for Hire

1. Under the 1976 Copyright Act, Copyright Vests Initially in the Creator of a Work Unless the Work is a Work Made for Hire

Section 201(a) of the Copyright Act of 1976 provides, "Copyright in a work protected under this title vests initially in the author or authors of the work."[2] The *only* exception to this rule appears in Section 201(b), which provides, "In the case of a work made for hire, the employer or other person for

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[2] In the case of a derivative work, like China RevUp32, the original material added to the existing work by the derivative work's authors is protected. *See infra* at I.C.

whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright."

Thus, under U.S. copyright law, the only way that someone other than the creator of a work can own the copyright in that work from its creation is if the work is a "work made for hire." On the facts as found by the jury, the China RevUp32 program is not, and could not be, a work made for hire. Therefore, Price Waterhouse cannot be its owner *ab initio*.

2. A Work Created by an Independent Contractor Cannot Be a "Work Made for Hire" Unless There is a Written Agreement Signed by Both Parties That So States

If a work is "specially commissioned" from an independent contractor, as the China RevUp32 program was specially commissioned from the Sky Company programmers, the work must meet two requirements before it will be considered a "work made for hire" and the "employer" will own the copyright. 17 U.S.C. § 101.

First, the work must fall into one of nine categories, namely, a contribution to a collective work; part of an audiovisual work; a translation; a supplementary work (*e.g.*, a forward, map, or table); a compilation; an instructional work; a test; test answer material; and, an atlas. 17 U.S.C. § 101(2). If a specially commissioned work does not fall into one of these categories, it cannot be a work made for hire. *See, e.g., Lulirama Limited v. Axcess Broadcast Services, Inc.*, 128 F.3d 872 (5th Cir. 1997) (holding that advertising jingles could not be works made for hire because they were sound recordings, which is not one of the nine categories). Software *per se* is not one of the nine categories. Although certain

kinds of software may fall into one of those categories (for example, software used to operate a Web site may be a contribution to a collective work or part of an audiovisual work), the China RevUp32 program, which merely processes tax information, does not.

Second, for a work prepared on special order or commission to be a work made for hire, the parties must "expressly agree in a written instrument signed by them that the work shall be considered a work made for hire." 17 U.S.C. § 101(2). It could not be more clear that without an agreement signed by both parties, a specially commissioned work cannot be a work made for hire. *See, e.g., Playboy Enters. Inc. v. Dumas*, 53 F.3d 549 (2d Cir. 1995) (magazine illustrations not works made for hire absent signed writing); *Quintanilla v. Texas Telev. Inc.*, 139 F.3d 494 (5th Cir. 1998) (videotape could not be work made for hire absent signed writing). No such agreement existed in this case, nor has any party contended that such an agreement exists.

In cases where the work does not satisfy either statutory condition, *i.e.*, it does not fall into any of the nine categories and there is no signed, written work-for-hire agreement, the courts have refused to find, rightly, that anyone other than the creator owned the copyright. *See, e.g., Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Construction Company,* 542 F. Supp. 252, 257 (D. Neb. 1982) ("[T]he architectural plans in question are not a commissioned work as defined by § 101 because they do not fall within any of the listed categories and because there was no written agreement between the parties that the plans should be considered a work made for hire"); *Meltzer v. Zoller*, 520 F. Supp. 847, 855 (D.N.J. 1981) ("However, plaintiff may not take advantage of the works for hire doctrine of authorship since architectural plans do not fall within the one of the statutorily prescribed categories of work. Nor does there exist the requisite express written agreement between plaintiff and the

architect designating the architectural plans as a work made for hire"); *Sunham Home Fashions, LLC v. Pem-America, Inc.*, No. 02 Civ. 6284 (JFK) 2002 U.S. Dist. LEXIS 24185 (S.D.N.Y. Dec. 17, 2002) (holding that a particular quilt could not be a work for hire because the quilt design did not fall into one of the nine categories, and also because no evidence of a written agreement had been submitted).

Even if the China RevUp32 program could somehow be shoehorned into one of the nine categories, it is undisputed that there was no written agreement signed by Sky Company. By affirming the district court's determination that Price Waterhouse owned the copyright in the China RevUp32 program *ab initio*, including the new original material created by the Sky Company programmers, when it is undisputed that the China RevUp32 program was not a work made for hire, the Seventh Circuit's opinion departs drastically from the unequivocal statutory language and long-standing judicial interpretation.

B. The Writing Requirement for Transfers of Ownership Under § 204

Given that Price Waterhouse could not possibly have owned the copyright in the China RevUp32 Program from its creation, the only way that Price Waterhouse could be held to own the copyright in the China RevUp32 Program would be if the Sky Company programmers transferred their copyright interests to Price Waterhouse. The facts cannot support such a result, because it is undisputed that there is no signed, written transfer of ownership, as the statute requires

Section 204(a) of the Copyright Act provides that a transfer of copyright cannot take place without a written document signed by the transferor: "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of

the transfer, is *in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.*" 17 U.S.C. § 204(a) (emphasis added).

Such a requirement has been a cornerstone of copyright law for almost 100 years. Section 28 of the 1909 Copyright Act provided that copyright "may be assigned, granted, or mortgaged *by an instrument in writing signed by the proprietor of the copyright.*" (Emphasis added.) *See, e.g., Snook v. Blank*, 92 F. Supp. 518 (D. Mont. 1948) (holding that the decedent had not transferred movie rights in his book to the defendant, because the defendant "ha[d] produced no writing to show her alleged gift," as required).

Congress changed the language in the 1976 Act to add even greater certainty. *See, e.g., Saenger Organization, Inc. v. Durkin*, 864 F. Supp. 246, 250 (D. Mass. 1994) ("Congress expressly revised the Copyright Act in order to require a written transfer of ownership in order to assure predictability and certainty of ownership"); *Nimmer on Copyright*, Section 10.03 ("This requirement of the current Act carries forward the parallel requirement of the 1909 Act, albeit with several differences. ... The current Act's broadening of 'transfers' to include 'exclusive licenses' thus increases the breadth of conveyances subject to the writing requirement.").

Since the 1976 Copyright Act took effect, courts confronting conflicting claims of copyright transfer have uniformly applied the language of Section 204(a) to conclude that lack of a written transfer is fatal to a claim of copyright ownership by a non-author. In *PMC, Inc. v. Saban Entertainment, Inc.*, 45 Cal. App. 4th 579 (Second Appellate District, Division Three, 1996), for example, a California appellate court considering a dispute over one of the most lucrative copyright franchises, Mighty Morphin Power Rangers, held that "the cause of action for breach of contract against Saban must fail because there was no formalized

agreement which satisfied the Copyright Act's requirement of a signed writing."

The only document that was held to govern the copyright interests in this case was the June 7, 1995 so-called "letter agreement." Since the Sky Company programmers never even saw, let alone signed, the June 7, 1995 letter, that document does not meet the requirements of Section 204(a), and Price Waterhouse does not claim that it does. Therefore, no transfer of copyright from the Sky Company programmers to Price Waterhouse can have taken place. Accordingly, Price Waterhouse cannot be an assignee or exclusive licensee of copyright in the China RevUp32 program, and the jury should not have been permitted to find that Price Waterhouse owned it.

C. The Division of Ownership of Derivative Works Under § 103(b)

1. The Copyright Act Expressly Provides that the Owner of an Underlying Work Does Not Own a Derivative Work Even if the Derivative Work Was Unauthorized

The fact that the China RevUp32 program is a derivative work, not a completely original creation, does not exempt it from the writing requirements described above. To the contrary, Section 103(b) provides, "The copyright in a compilation or derivative work extends *only* to the material contributed by the author of such work, as distinguished from the pre-existing material employed in the work, and does not imply any exclusive right in the pre-existing material. The copyright in such work is independent of, *and does not affect or enlarge the scope*, duration, ownership, or subsistence *of*,

any copyright protection in the pre-existing material." (Emphasis added.)[3]

As the leading treatise, *Nimmer on Copyright*, states, "[T]he copyright owner of the underlying work does not as such become the copyright owner of the material added in a collective or derivative work incorporating such underlying work." *Nimmer on Copyright*, Section 3.04, n.4; *MCA, Inc. v. Wilson*, 425 F. Supp. 443, 455 (S.D.N.Y. 1976), *aff'd on other grounds*, 677 F.2d 180 (2d Cir. 1981) (rejecting argument based on common-law copyright that the owner of a musical composition should be considered the owner of sections that were added to the work by a licensee). An author does not own the copyright to a translation of her work, for example, unless the translator agrees, in writing, that it is a work made for hire or that ownership be transferred.

In this case, there is no question that Price Waterhouse owns the underlying RevUp32 program. There is also no question that Price Waterhouse did not "contribute" the new material that resulted in the derivative China RevUp32 program. Thus, under Section 103(b), Price Waterhouse does not own and cannot own that new material or the China RevUp32 program as a whole, as the Seventh Circuit erroneously held.

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[3] Ownership of copyright in a derivative work does not include the right to exploit the derivative work, where doing so would infringe the rights in the underlying work on which the derivative work is based. *Stewart v. Abend*, 495 U.S. 207 (1995)(distribution of Hitchcock film "Rear Window" could be enjoined when filmmaker's contractual right to use underlying short story lapsed).

II. THE DECISION SUBVERTS A "PARAMOUNT" POLICY GOAL OF THE COPYRIGHT ACT

Beyond conflicting with the language and structure of the Copyright Act and well-settled case law, the Seventh Circuit's decision is wholly at odds with the legislative history of, and the policy behind, the 1976 Copyright Act.

As this Court has made clear, Congress's "paramount" goal in enacting the 1976 Copyright Act was to "enhanc[e] predictability and certainty of copyright ownership." *Community for Creative Non-Violence v. Reid,* 490 U.S. 730, 742 (1989) ("*CCNV*"), at 749-50, citing H.R. Rep. No. 94-1476, at 129 (1976). It was to that end that Congress, *inter alia*, carried forward from the 1909 Act the writing requirement for the transfer of copyrights and added the requirement of a writing for commissioned works to be works made for hire. *See CCNV*, 490 U.S. at 749-50; *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990). *See also New York Times Co. v. Tasini*, 533 U.S. 483, 495 (2001) ("In the 1976 revision, Congress acted to clarify and improve [the] confused and frequently unfair legal situation with respect to [authors' rights] in contributions").

The principal purpose of the new Section 204 governing transfer of ownership was "to resolve disputes between copyright owners and transferees and to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses or copyright ownership." *Imperial Residential Design, Inc. v. The Palms Dev. Group, Inc.*, 70 F.3d 96, 99 (11th Cir. 1995). By "ensur[ing] that the creator of a work will not give away his copyright inadvertently and forc[ing] a party who wants to use the copyrighted work to negotiate with the creator to determine precisely what rights are being transferred and at what price," Section 204 "enhances predictability and certainty of copyright ownership," consistent with Congress's "paramount goal."

Effects Assocs., 908 F.2d at 557. The Seventh Circuit's decision here frustrates that overriding Congressional goal.

The legislative history of the 1976 Act confirms the "well-established principle[]" of copyright law that "the source of copyright ownership is the *author* of the work." H.R. Rep. No. 94-1476, at 120 (1976) (emphasis added). The Seventh Circuit decision disregards this well-settled principle in the case of a derivative work even though the legislative history further confirms that as long as a "derivative work" meets the criteria for copyrightable subject matter, it is "copyrightable" with respect to "the material added by the later author." H.R. Rep. No. 94-1476, at 57 (1976).[4]

By holding that the parties' intent is paramount, and allowing a jury determination of intent to determine ownership, the Seventh Circuit effectively revived the 1909 Copyright Act. Under the 1909 Act, as under current law, an employer was deemed to be the author and copyright owner of "works made for hire" (17 U.S.C. § 26 (1976 ed.)), but the term "work made for hire" was not defined in the earlier statute. Through judicial interpretation, it came to mean a work created by one person at the "instance and expense of another." *See, e.g., Brattleboro Publ'g Co. v. Winmill Publ'g Corp.*, 369 F.2d 565, 567 (2d Cir. 1966). To determine whether a work had been created at someone else's "instance and expense," courts examined whether "'the motivating factor in producing the work was the employer who induced the creation'" and whether the employer had the

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[4] The only limitation on such protection arises where a "derivative work unlawfully employ[s] preexisting copyrighted material," but the Sky Company was authorized to create its derivative work at the time. *Id.* (noting that the purpose of such limitation is to prevent an infringer from benefiting, through copyright protection, from committing an unlawful act). Even assuming that RevUp32 was unlawfully employed, however, the statute dictates that the copyright in the new matter simply not be protected; it does not authorize a party other than the author to claim ownership.

right to control or supervise the artist's work. *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 206 F.3d 1322, at 1326 (9th Cir. 2000) (quoting *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 554 (2d Cir. 1995)). That is the inquiry the Seventh Circuit endorsed in this case.

As this Court explained in *CCNV* and as the Act's legislative history illustrates, however, in the 1976 Act, Congress significantly *narrowed* the circumstances under which a work could be owned *ab initio* by a hiring party. The original drafts of the proposed new copyright act entirely excluded commissioned works from the category of works for hire. In 1964, a revision bill expanded the scope of the work-for-hire classification by adding a new clause that commissioned works could be works made for hire "if the parties so agree in writing." S. 3008, H.R. 11947, H.R. 12354, 88th Cong., 2d Sess., § 54 (1964), reprinted in 1964 Revision Bill with Discussions and Comments, 89th Cong., 1st Sess., Copyright Law Revision, pt. 5, at 31 (H.R. Judiciary Comm. Print 1965). The provision generated extensive debate among authors and publishers. *CCNV*, 490 U.S. at 745-46 (citing Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law: pt. 6, at 67 (H.R. Judiciary Comm. Print 1965)). The parties finally reached agreement on the provision when, in exchange for concessions from the publishers on other provisions, the authors consented to a provision that only certain categories of commissioned works could be eligible to be works for hire, if the parties also agreed in writing. *CCNV*, 490 U.S. at 746. In 1966, the House Committee on the Judiciary endorsed the compromise. *CCNV*, 490 U.S. at 747 (citing H.R. 2237, 89th Cong., 2d Sess., 114, 116 (1966)). The revision bill became § 101 of the 1976 Act.

In *CCNV*, this Court expressly rejected a party's attempt to import the 1909 "control" test into the work-for-hire analysis under the 1976 Act, cautioning that "importing a test based on a hiring party's right to control, or actual control of, a product would unravel the 'carefully worked out compromise aimed at balancing legitimate interests on both sides.'" *CCNV*, 490 U.S. at 747-48 (citing H.R. 2237, 89th Cong., 2d Sess., at 114 (1966), quoting Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law: pt. 6, at 66 (H.R. Judiciary Comm. Print 1965)). This Court cannot allow the Seventh Circuit's equally express rejection of that warning to stand.

The Seventh Circuit's determination that the copyright in the China RevUp32 program vested in Price Waterhouse, even in the absence of any work-for-hire or transfer writing, constitutes precisely the transformation of "a commissioned work into a work by an employee on the basis of the hiring party's right to control, or actual control of, the work" that this Court condemned in *CCNV* as "inconsistent with the language, structure, and legislative history of the work for hire provisions." *CCNV*, 490 U.S. at 750. Unless reversed, the Seventh Circuit's decision will unsettle the copyright ownership expectations of many creators of derivative works, "clearly thwart[ing] Congress' goal of ensuring predictability" and certainty of copyright ownership. *Id.* at 742, 749.

III. THE DECISION BELOW UPSETS BASIC COPYRIGHT PRINCIPLES NEEDLESSLY

The courts below did not have to disregard key requirements of the Copyright Act to give Price Waterhouse the opportunity to prove that it is entitled to use the China RevUp32 program. Under well-settled doctrines, the rights to

use a disputed work may be adjusted as a matter of equity, without disturbing the settled principles of copyright ownership, if the facts so warrant.

A. Implied License

Unlike an exclusive license, which the Copyright Act defines as a "transfer of ownership" subject to the writing requirement of § 204(a), a non-exclusive license can arise orally or from the parties' conduct. 17 U.S.C. § 101; *Nimmer on Copyright*, Section 10.03 [A][7]; *see also I.A.E., Inc. v. Shaver*, 74 F.3d 768 at 775 (7th Cir. 1996). Courts including the Seventh Circuit have consistently held that an implied nonexclusive license is granted when (1) the licensee requests the creation of the work; (2) the licensor creates the work and delivers it to licensee; and (3) the licensor intends that the licensee copy and distribute the work. *Shaver*, 74 F.3d at 776 (citing *Effects Assoc., Inc. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir. 1990)); see also *Kennedy v. Nat'l Juvenile Detention Assn.*, 187 F.3d 690, 694 (7th Cir. 1999), *cert. denied,* 2000 U.S. Lexis 1093. The court will look to the "totality of the parties' conduct" to determine intent. *Nimmer on Copyright*, Section 10.03 [A][7]. Some objective factors that the court in *Effects* looked to in determining intent included a letter agreement between the parties, deposition testimony, the language of the copyright registration certificate, and the amount that the plaintiff received for the work in question. *Effects*, 908 F.2d at 559; *see also Shaver*, 74 F.3d at 776.

In a grant of a non-exclusive license, ownership in the copyright remains with the licensor-creator of the work. *Id.* Granting a non-exclusive license waives the copyright owner's right to sue the licensee for copyright infringement, however, so the license creates an affirmative defense to a claim of copyright infringement. *Shaver*, 74 F.3d 768 at 775 (citing *Effects*, 908 F.2d at 559). *See also Graham v. Night Owl Pub., Inc.*, 144 F.3d 229, 236 (2nd Cir. 1998).

Here, the courts below could have examined whether, by creating the China RevUp32 program and allowing it to be delivered to Price Waterhouse with the expectation of payment, the Sky programmers granted Price Waterhouse an implied non-exclusive license to use the new matter in the China RevUp32 program. If so, Price Waterhouse would be able to use the work and petitioner would be barred from asserting copyright infringement claims against it. Moreover, because the Sky Company programmers' ownership extends only to the material they contributed to the China RevUp32 program, under § 103(b), they would not be able to market the complete derivative work without Price Waterhouse's consent.

B. Misuse or Unclean Hands

The equitable doctrines of unclean hands and copyright misuse might also provide standards by which the courts below, without turning copyright law on its head, could have decided whether Price Waterhouse should be excused for the unauthorized use of the China RevUp32 program. Where the alleged infringer has been directly harmed by the acts of a copyright owner, the general equitable doctrine of unclean hands could provide a basis on which to bar enforcement. *See Nimmer on Copyright,* Section 13.09 and cases cited therein (recognizing unclean hands defense "when the plaintiff's transgression is of serious proportions and relates directly to the subject matter of the infringement action").

The defense of copyright misuse has been raised when a copyright owner allegedly exploits its work in such a way as to restrict competition or obtain some unfair commercial advantage. At least two circuits have recently accepted this defense to render a copyright wholly unenforceable against an infringer, even where the infringer has not been harmed by the alleged misuse. The Fourth Circuit in *Lasercomb*

America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), for example, concluded that the misuse doctrine should bar an infringement action by a software proprietor that had used its license agreement with third parties to limit competition in areas that were outside the scope of the copyright. As in *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), the defense was held to be available even though the defendants willfully infringed and even though they were not parties to the questionable license agreement.

Citing *Morton Salt,* the Fourth Circuit in *Lasercomb* held that while the use of a copyright in violation of the Sherman Act "probably would give rise to a misuse of copyright defense, the converse is not necessarily true -- a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action." *Lasercomb,* 911 F.2d at 978. *Lasercomb* thus holds that the proper test for misuse of copyright lies in the policy underlying copyright law itself. The question, then, is not whether a restrictive license provision is "reasonable" in an antitrust sense, but "whether the copyright is being used in a manner violative of the public policy embodied in the grant of copyright." *Id.* at 973.[5]

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[5] In *qad, inc. v. ALN Assocs., Inc.*, 974 F.2d 834 (7th Cir. 1992), the Seventh Circuit applied this standard to reverse an injunction that software developer qad initially obtained against defendant ALN prohibiting the sale of ALN's allegedly infringing program. Upon discovering that qad's program was itself derived from an earlier Hewlett-Packard program which qad had failed to disclose to the Copyright Office or to the court, ALN raised the defense of copyright misuse. Relying on *Morton Salt* and *Lasercomb*, the court vacated the injunction against ALN, finding that qad had wrongly secured an injunction to protect its nominal copyright in a program that it knew it did not create. This "improper extension and overstatement of qad's copyrights is a misuse which this Court should remedy by declaring qad's copyrights unenforceable against ALN." *Id.* at 1266.

The Seventh Circuit could have applied this same analysis to determine whether the Sky Company programmers should be permitted to inhibit respondents' ability to exploit the RevUp32 program with the China RevUp32 enhancements that the Sky Company authored.

C. Beneficial Ownership and Constructive Trust

Where a party is not the legal owner of copyright in a work, but it has a strong equitable argument that it should be the owner, the Copyright Act permits the courts to deem that party a "beneficial owner" of copyright and to direct an appropriate result.

Section 501 of the Act permits either the "legal or beneficial owner of an exclusive right under a copyright" to sue for infringement. As the Southern District of New York explained in *A. Brod, Inc. v. SK&I Co., LLC*, 998 F. Supp. 314, 325 (S.D.N.Y. 1998), the "legal and equitable interest in a copyright may be held separately.... [thus] both the equitable, or 'beneficial,' owner of a copyright and the legal owner have standing to sue for infringement." Thus, as a statutory matter, Price Waterhouse here could have sought protection for rights it might be found to have as a beneficial owner of the copyright at issue, if the facts permitted.

Once beneficial ownership is established, a court may impose a constructive trust on a copyright for the benefit of the beneficial owner, as in *Stone v. Williams*, 970 F.2d 1043, 1052 (2d Cir. 1992), where the illegitimate daughter of country music legend Hank Williams was held to be a beneficial owner of the copyrights in her deceased father's songs. A constructive trust "is an equitable relationship, not a legal relationship," *A. Brod, supra*, and is properly imposed whenever ownership "has been acquired in such circumstances that the holder of the legal title may not in

good conscience retain the beneficial interest." *Republic of Philippines v. Marcos*, 806 F.2d 344, 355 (2d Cir. 1986).

Applying this broad equitable discretion, the courts have recognized beneficial ownership in a variety of circumstances in which plaintiff clearly lacks legal title to the copyright at issue but can make a strong equitable claim for ownership. In *Jacobs v. Transocean Entertainment*, No. 95-55804, 95-56762, 1996 U.S. App. LEXIS 27591 (9th Cir. Oct. 22, 1996), for example, plaintiffs sought a declaration that they were the beneficial owners of copyright in a screenplay for the film "Brainscan," because they had been improperly deprived of an option in the work to which they were entitled. The Ninth Circuit upheld the complaint against a motion to dismiss, finding that plaintiffs had "alleged facts, which, if proven, might afford them enough of an economic interest to sue as legal or beneficial owners of the Brainscan copyright should the trust be imposed and [the legal owner] ordered to transfer title to them." Id. at *6.

In *A. Brod, supra*, a Japanese company, Masudaya, temporarily assigned its copyright in a certain toy design to a U.S. company to permit the assignee to bring a U.S. infringement action on the owner's behalf. When the assignee later refused to assign the copyrights back to Masudaya, as the parties allegedly had agreed, the Japanese company brought an action to vindicate its rights in the work. Under the Copyright Act, the defendant clearly owned the copyright, but it just as clearly had retained it in an inequitable fashion, according to Masudaya's allegations. The court held that even though the alleged promise to reconvey the copyright was oral rather than written, it was enforceable under equitable state law principles despite the Copyright Act's § 204 writing requirement.

The courts below could have properly recognized the Sky Company programmers' legal ownership of the disputed

software and gone on to determine whether Price Waterhouse should be recognized as a beneficial owner. If the facts warranted, title could have been transferred to Price Waterhouse on that basis.

CONCLUSION

The dispute over China RevUp32 could be resolved in several ways. What a court may not do, however, is indulge in the damaging legal fiction created by the courts below that a party other than the author of a work can be deemed the owner of copyright in that work *ab initio*. The Court should therefore grant the petition for *certiorari*, vacate the decision of the Seventh Circuit and remand for further proceedings.

Respectfully submitted,

Robert W. Clarida
Counsel of Record
Cowan, Liebowitz & Latman, P.C.
1133 Ave. of the Americas
New York, NY 10036
(212) 790-9266

Edward J. Davis
Chair of the Committee on Copyright and Literary Property of the Association of the Bar of the City of New York
42 West 44th Street
New York, NY 10036
(212) 603-6431

Jessica R. Friedman
Attorney at Law
757 Third Avenue
Suite 1903
New York, NY 10017
(212) 973-9100

Attorneys for Amicus Curiae